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~~Top Secret~~**Special Analysis****YUGOSLAVIA: Sinking Deeper Into Political Quagmire**

The postwar political consensus among Yugoslavia's ethnic groups is breaking down after a decade of economic deterioration and government mismanagement. Political tensions probably will increase next year, undermining the implementation of sorely needed economic and political reforms and further weakening the country's stability.

Tensions in Yugoslavia, already at a postwar high, rose again last week after bitter exchanges between Serbian and Slovene officials over a planned demonstration in Slovenia by as many as 40,000 ethnic Serbs. The demonstration was canceled after Slovene leaders termed it a Serbian provocation and threatened to use police to prevent it. Serbian officials are calling for a retaliatory economic boycott of Slovenia.

The national leadership has been seriously weakened by the increasing polarization of regional disputes and has been unable to mediate effectively. The eight-member State Presidency, which reportedly often splits evenly on key domestic issues, gave the Slovene leadership only weak support during the latest dispute with Serbia. The party's Central Committee is also deadlocked; the latest furor prompted party leaders to cancel a plenum that was to have prepared for next month's national party congress.

Yugoslav leaders are unlikely to forge a new agreement on ethnic power sharing in the coming year. Preparations for the national party congress are exposing sharp regional differences over reforms and regional autonomy that republic party congresses to be held this month will reinforce. Slovenia, and to a lesser extent Croatia, probably will advocate a multiparty parliamentary system and greater regional autonomy. Serbia, the largest republic, and its allies in Vojvodina and Montenegro will support a stronger central government and the retention of the Communist Party's political monopoly. In the near term Slovenia probably will proceed with its plan for its own de facto multiparty system and with plans for open elections next spring. Few changes are likely in Serbia and its provinces.

Despite the deepening political divisions, Yugoslav leaders probably can muddle through for at least another year, but the outlook thereafter seems increasingly bleak.

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Weak Economy Aggravating Regional Disputes in Yugoslavia

Serious economic deterioration over the past decade has compounded Yugoslavia's ethnic and political problems.

- The annualized inflation rate exceeded 16,000 percent in October 1989 and has been greater than 100 percent since 1986.
- The gross social product, which has declined since 1986, probably will fall by more than 2.5 percent this year.
- Real net income per worker has fallen almost every year since 1978, according to the IMF. The decline last year was about 8 percent and probably will be about the same this year.

The decline has soured the atmosphere for economic reforms. The recent Serbian-Slovene conflict has endangered Premier Markovic's economic reform package by prompting renewed Serbian calls for his ouster. Interrepublic bickering last month stymied Markovic's attempt to push major reform legislation through the National Assembly.

- Slovenia, the wealthiest republic, opposed a draft tax law because Slovene authorities feared that the imposition of corporate profit and income taxes would disproportionately fall on local industries and increase subsidies Slovenia provides other republics.
- Serbia blocked a draft foreign exchange law calling for a fully convertible dinar because it would reduce the advantages Serbian firms gain from unique financing arrangements for trade with the USSR.
- Croatia rejected a draft law that would have made petroleum prices subject to market forces because the law would have hurt Croatia's large oil industry.

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